

Between Compliance and Creation: Financial Regulation as a Dual-Force Shaping Sustainable Entrepreneurship in the Fintech Sector

Neha Kabra

Department of Business Administration
Czech University of Life Sciences, Prague, Czech Republic

Abstract - Financial regulation in the fintech sector operates as a dual-force: simultaneously constraining and enabling sustainable entrepreneurial behaviour. While a substantial body of literature examines regulatory compliance as a burden on new ventures and a growing literature addresses sustainable entrepreneurship, no existing study has systematically examined how AML/CFT (Anti-Money Laundering and Countering the Financing of Terrorism) frameworks, ESG disclosure requirements, and related compliance regimes shape the sustainability orientation of fintech entrepreneurs across multiple institutional contexts. This paper introduces the concept of *regulatory duality* in sustainable entrepreneurship - the theoretically underexplored phenomenon whereby the same compliance framework can function as both a barrier to sustainable innovation and a legitimacy resource that enables compliant ventures to attract capital, clients, and partnerships. Drawing on institutional theory, sustainable entrepreneurship theory, and entrepreneurial legitimacy research, and grounded in practitioner observations across three regulatory environments (India, Czech Republic, and Luxembourg/EU), the paper develops a conceptual framework for examining this duality and proposes a research agenda for empirical investigation. The argument contributes to both the sustainable entrepreneurship literature and the emerging scholarship on regulatory governance and innovation.

Keywords - sustainable entrepreneurship; AML/CFT compliance; institutional theory; fintech regulation; entrepreneurial legitimacy; ESG; regulatory duality

I. INTRODUCTION

The relationship between regulation and entrepreneurship is among the most contested in the management literature. Orthodox economic accounts treat regulatory compliance as an unambiguous cost — a deadweight on entrepreneurial activity that diverts resources from productive innovation [1]. More nuanced institutional perspectives recognise that regulatory frameworks also generate legitimacy resources, market access, and competitive advantages for those who navigate them successfully [2]. Yet almost no scholarly attention has been directed at this duality in the specific and consequential context of sustainable entrepreneurship in financial services.

This gap matters for both theoretical and practical reasons. Theoretically, the financial services sector is the institutional environment in which the tension between compliance and sustainability is most acute: AML/CFT frameworks, ESG disclosure regimes, and green finance taxonomies simultaneously impose compliance costs and create new sustainability-oriented market opportunities. Practically, the rapid growth of fintech — broadly defined as technology-enabled innovation in financial services [3] — has made this tension visible and commercially significant. Fintech ventures are disproportionately subject to compliance requirements relative to their size, yet they are also disproportionately positioned to exploit sustainability-oriented market opportunities that incumbent institutions are slow to address [4].

This paper makes three contributions. First, it introduces the concept of regulatory duality in sustainable entrepreneurship — the phenomenon whereby a single compliance framework functions simultaneously as a constraint on and an enabler of sustainable entrepreneurial behaviour. Second, it develops a conceptual framework integrating institutional theory, sustainable entrepreneurship theory, and entrepreneurial legitimacy research to explain the mechanisms through which regulatory duality operates. Third, it identifies a research agenda for empirical investigation of these mechanisms, with particular attention to cross-jurisdictional variation in how compliance frameworks shape entrepreneurial sustainability orientation.

The paper is structured as follows. Section II reviews the relevant literatures and identifies the research gap. Section III introduces the concept of regulatory duality and develops the conceptual framework. Section IV examines the role of digital communication in compliance-legitimacy management. Section V discusses cross-jurisdictional variation. Section VI proposes the research agenda. Section VII concludes.

II. LITERATURE REVIEW AND RESEARCH GAP

A. Sustainable Entrepreneurship

Sustainable entrepreneurship — the recognition, development, and exploitation of opportunities that contribute to sustainability in the natural and communal environment — has attracted substantial scholarly attention since Dean and McMullen's [5] foundational theoretical account. Shepherd and Patzelt [6] extended this framework

by specifying what is to be sustained (natural environment, sources of life support, human communities) and what is to be developed (economic gain, non-economic gain for individuals, gain for society). York and Venkataraman [7] examined how market failure creates entrepreneurial opportunity in sustainability domains, while Hockerts and Wüstenhagen [8] theorised the distinct roles of incumbent firms and new entrants in driving sustainable market transitions.

A consistent theme in this literature is that institutional environments shape sustainable entrepreneurial behaviour, but the specific institutional mechanisms examined have been primarily market-based (consumer demand, investor pressure, competitive dynamics) or broad-regulatory (environmental legislation, carbon pricing). Financial regulatory compliance — particularly AML/CFT frameworks — has not been examined as a specific institutional shaper of sustainable entrepreneurship.

B. Institutional Theory and Entrepreneurship

North's [9] distinction between formal institutions (laws and regulations) and informal institutions (norms and conventions) provides the foundational framework for understanding how regulatory environments shape entrepreneurial behaviour. DiMaggio and Powell's [10] account of institutional isomorphism — through coercive, normative, and mimetic mechanisms — explains how organisations within a regulatory field come to resemble one another over time. In the context of fintech, coercive isomorphism through AML/CFT compliance requirements is particularly significant: all ventures operating in regulated financial services must meet the same compliance standards, regardless of their size, age, or sustainability orientation.

Thornton, Ocasio, and Lounsbury's [11] institutional logics perspective extends this analysis by examining how actors navigate competing institutional demands. Fintech entrepreneurs face at least two distinct institutional logics: the logic of financial regulatory compliance (prioritising risk management, documentation, and systemic integrity) and the logic of sustainable value creation (prioritising environmental and social impact, innovation, and long-term stakeholder value). The tension between these logics — and the strategies entrepreneurs develop to manage it — is the central empirical puzzle addressed by this paper.

C. Entrepreneurial Legitimacy

Suchman [12, p. 574] defines legitimacy as 'a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.' Zimmerman and Zeitz [13] argue that legitimacy is not merely a resource but a survival condition for new ventures: those that fail to achieve legitimacy threshold perceptions from key stakeholders cannot access the capital, talent, and market relationships needed to operate.

In regulated financial service environments, compliance-legitimacy — the perception that a venture meets its regulatory obligations — is a specific and critical form of legitimacy. Importantly, compliance-legitimacy is not merely a reputation effect: it determines access to banking services, payment infrastructure, institutional clients, and investment

capital. A fintech venture that is perceived as non-compliant — regardless of its actual sustainability credentials — will be excluded from the financial ecosystem it requires to operate.

D. The Identified Gap

Three gaps emerge from this review. First, the sustainable entrepreneurship literature has not examined AML/CFT compliance as a specific institutional force shaping sustainability orientation. Second, the institutional compliance literature has not examined how compliance frameworks create legitimacy resources that can enable, rather than merely constrain, sustainable entrepreneurial behaviour. Third, neither literature has examined how digital communication — increasingly the primary medium through which entrepreneurs manage legitimacy perceptions — operates as a compliance-legitimacy signalling mechanism in regulated sustainable entrepreneurship.

This paper addresses all three gaps through the concept of regulatory duality and the integrative conceptual framework developed in the following section.

III. REGULATORY DUALITY IN SUSTAINABLE ENTREPRENEURSHIP: A CONCEPTUAL FRAMEWORK

A. Defining Regulatory Duality

We define regulatory duality as the property of a financial compliance framework whereby it simultaneously functions as (a) a coercive institutional constraint that diverts entrepreneurial resources from sustainability innovation toward compliance administration, and (b) a legitimacy resource that enables compliant ventures to access markets, capital, and partnerships unavailable to non-compliant competitors.

This definition departs from both the orthodox economic account (regulation as pure cost) and the naive institutional account (regulation as pure legitimacy resource). It holds that both effects operate simultaneously, that their relative magnitude varies across venture characteristics and institutional contexts, and that entrepreneurs can adopt strategies to minimise the constraining effects while maximising the legitimating effects of the same compliance framework.

Regulatory duality has not previously been theorised in the entrepreneurship literature, though its empirical manifestations are evident to practitioners. A fintech venture that achieves full AML/CFT compliance incurs significant costs — legal fees, compliance officer salaries, technology investments, and management time. Yet the same compliance achievement signals to institutional clients, investors, and regulators that the venture is trustworthy, well-managed, and capable of operating in regulated markets. For sustainability-oriented fintech ventures, this signal is particularly valuable because sustainability claims are frequently met with scepticism by institutional stakeholders who associate 'impact' claims with governance weakness.

B. The Dual-Force Model

Figure 1 presents the Dual-Force Model of Regulatory Compliance and Sustainable Entrepreneurship. The model identifies four key components:

Compliance Intensity (CI): The volume and complexity of regulatory requirements faced by a venture, determined by its size, market segment, product characteristics, and jurisdictional context. CI is the primary driver of the constraining effect of regulatory duality.

Resource Diversion (RD): The proportion of entrepreneurial resources — financial, cognitive, and temporal — redirected from sustainability innovation toward compliance administration as a result of CI. RD operationalises the constraining effect of regulatory duality and is predicted to be highest in early-stage ventures with limited slack resources.

Legitimacy Signalling Capacity (LSC): The extent to which a venture's compliance achievements can be credibly communicated to external stakeholders as legitimacy signals. LSC operationalises the enabling effect of regulatory duality and is predicted to vary with compliance certification status, digital communication capability, and stakeholder awareness of compliance requirements.

Sustainability Orientation Outcome (SOO): The net sustainability orientation of the venture, measured as a function of CI, RD, and LSC. The model predicts that SOO is maximised when LSC is high relative to RD — that is, when a venture can effectively convert compliance achievement into legitimacy resources that unlock sustainability-enabling stakeholder relationships.

The central theoretical claim of the Dual-Force Model is that regulatory compliance does not have a monotonic effect on entrepreneurial sustainability orientation. High compliance intensity reduces sustainability orientation through resource diversion, but it also increases legitimacy signalling capacity — and when entrepreneurs can effectively deploy this capacity through targeted communication strategies, the net effect on sustainability orientation can be positive.

C. Moderating Factors

Three moderating factors are predicted to shape the relative magnitude of the constraining and enabling effects:

Venture Age and Size: Early-stage and small ventures experience higher RD relative to LSC because they have fewer slack resources and less established compliance infrastructure. As ventures mature, the ratio of LSC to RD improves, and the enabling effect of regulatory duality becomes more accessible.

Regulatory Experience: Entrepreneurs with prior compliance experience in other jurisdictions — particularly those who have operated across institutional environments with different regulatory traditions — develop adaptive strategies for minimising RD while maximising LSC. Cross-jurisdictional regulatory experience is predicted to be a significant positive moderator of the enabling effect of regulatory duality.

Digital Communication Capability: The extent to which a venture can communicate its compliance achievements credibly and efficiently to external stakeholders moderates the translation of compliance achievement into legitimacy resources. Ventures with strong digital communication capabilities — including sophisticated social media presence, content marketing, and stakeholder engagement strategies — are predicted to achieve higher LSC for equivalent CI.

IV. DIGITAL COMMUNICATION AS A COMPLIANCE-LEGITIMACY MECHANISM

The role of digital communication in entrepreneurial legitimacy construction has attracted growing scholarly attention [14], [15]. Fischer and Reuber [16] established that social media communication affects effectual thinking and behaviour in new ventures. Pollack, Rutherford, and Nagy [17] demonstrated that the preparation and cognitive legitimacy signals communicated in entrepreneurial pitches are significant predictors of funding outcomes. This paper extends their findings to a new and consequential domain: the use of digital communication to manage compliance-legitimacy in regulated sustainable entrepreneurship.

We propose that fintech entrepreneurs facing high compliance intensity adopt what we term compliance-legitimacy communication strategies (CLCS) — structured digital communication approaches designed to signal regulatory compliance and sustainability credentials simultaneously to external stakeholders. CLCS operate through three mechanisms:

A. Credential Signalling

Entrepreneurs publicly communicate compliance certifications, regulatory approvals, and audit outcomes through company websites, LinkedIn profiles, press releases, and industry publications. These credentials function as hard legitimacy signals [18] that reduce stakeholder uncertainty about the venture's regulatory status. For sustainability-oriented fintech ventures, credential signalling is particularly valuable because it decouples sustainability claims from compliance scepticism: a venture that can demonstrate simultaneous AML/CFT compliance and ESG commitment signals that its sustainability orientation is operationally grounded rather than aspirational.

B. Narrative Framing

Entrepreneurs construct and communicate narratives that position regulatory compliance as evidence of the venture's commitment to systemic integrity — a sustainability value in itself. This framing connects AML/CFT compliance (preventing financial crime) to ESG principles (promoting transparent, accountable governance), positioning the venture's compliance investments as alignment with stakeholder values rather than mere regulatory obligation. Narrative framing operates primarily through long-form digital content — blog posts, whitepapers, and thought leadership articles — that reach institutional stakeholders who require more than credential signals to make relationship decisions.

C. Community Engagement

Entrepreneurs participate in digital communities of practice — regulatory technology networks, sustainable finance forums, compliance professional associations — to build relationships with peers and stakeholders who understand and value compliance achievements. Community engagement increases LSC by building relational networks through which compliance-legitimacy signals can be amplified and validated by trusted third parties. It also provides entrepreneurs with market intelligence on how regulatory frameworks are

evolving, enabling proactive rather than reactive compliance strategies.

Together, these three mechanisms constitute the digital compliance-legitimacy communication repertoire available to sustainable fintech entrepreneurs. Their effectiveness varies with venture characteristics, stakeholder composition, and institutional context — variation that the empirical research agenda proposed in Section VI is designed to examine.

V. CROSS-JURISDICTIONAL VARIATION AND INSTITUTIONAL DISTANCE

Financial regulatory compliance is formally international — the Financial Action Task Force (FATF) [19] sets global standards for AML/CFT frameworks that are implemented across 200+ jurisdictions — but substantially national: the specific requirements, enforcement cultures, and institutional contexts within which these standards are implemented vary enormously. This variation has significant implications for the mechanisms of regulatory duality identified in Section III.

Institutional distance — the difference between institutional environments across countries [20] — affects how entrepreneurs with cross-jurisdictional regulatory experience navigate compliance requirements. Entrepreneurs who have operated across jurisdictions with different AML/CFT implementation approaches develop what we term regulatory repertoires: diverse sets of compliance strategies, legitimacy communication approaches, and institutional navigation skills that enable them to manage compliance requirements more efficiently and to signal compliance-legitimacy more credibly.

Three jurisdictional contexts are particularly relevant to the proposed research agenda:

Luxembourg (EU): Home to the CSSF, the European Investment Fund, and the world's second largest fund domicile, Luxembourg represents the most sophisticated AML/CFT regulatory environment in the EU. Compliance intensity is exceptionally high, but so is compliance-legitimacy recognition: institutional stakeholders in Luxembourg have high regulatory literacy and assign significant legitimacy value to demonstrated compliance achievement.

Czech Republic (EU Transition Economy): As an EU member state undergoing regulatory convergence with EU AML/CFT standards, the Czech Republic represents an intermediate institutional context in which compliance requirements are tightening rapidly but compliance-legitimacy recognition lags behind Luxembourg. This creates a distinctive context in which RD is increasing faster than LSC — the constraining effect of regulatory duality may be particularly acute for Czech fintech entrepreneurs.

India (Emerging Economy): India's AML/CFT framework is governed by the Prevention of Money Laundering Act (PMLA) and regulated by the Financial Intelligence Unit of India (FIU-IND). The institutional context differs substantially from the EU: enforcement culture, compliance industry maturity, and stakeholder awareness of compliance requirements all differ in ways that affect the mechanisms of regulatory duality. Indian fintech entrepreneurs who have

also operated in EU regulatory environments represent a particularly interesting population for studying how cross-jurisdictional regulatory experience shapes compliance-legitimacy strategies.

The cross-jurisdictional variation in regulatory duality mechanisms is not merely a contextual moderator — it is a theoretically significant finding in its own right. If the enabling effect of regulatory duality operates primarily in high-literacy institutional environments (Luxembourg) but the constraining effect dominates in lower-literacy contexts (India, early-stage Czech Republic), this has direct implications for how policymakers should design compliance support frameworks to enable rather than merely require sustainable entrepreneurship.

VI. PROPOSED RESEARCH AGENDA

The conceptual framework developed in this paper generates a research agenda with three empirical priorities:

Priority 1: Mechanism Identification

Qualitative research — specifically semi-structured interviews with fintech entrepreneurs, compliance officers, and sustainability managers across the three jurisdictional contexts — is needed to identify the specific mechanisms through which regulatory duality operates in practice. Key questions include: How do entrepreneurs experience the trade-off between compliance investment and sustainability innovation? What strategies do they adopt to manage this trade-off? How do compliance-legitimacy communication strategies vary across venture types and institutional contexts?

Priority 2: Quantitative Hypothesis Testing

Survey-based research across a larger sample of fintech entrepreneurs is needed to test the hypotheses implied by the Dual-Force Model, including: (H1) the negative relationship between compliance intensity and sustainability orientation mediated by resource diversion; (H2) the positive moderating effect of digital communication capability on the relationship between compliance achievement and legitimacy signalling capacity; and (H3) the positive moderating effect of cross-jurisdictional regulatory experience on the enabling effect of regulatory duality.

Priority 3: Longitudinal Tracking

The Dual-Force Model predicts that the constraining and enabling effects of regulatory duality change over the venture lifecycle. Longitudinal research tracking fintech ventures from early-stage compliance investment through to legitimacy achievement and sustainability outcome is needed to assess whether the enabling effect does indeed become dominant over time, and under what conditions.

VII. CONCLUSION

This paper has introduced the concept of regulatory duality in sustainable entrepreneurship — the theoretically underexplored phenomenon whereby financial compliance frameworks simultaneously constrain and enable sustainable entrepreneurial behaviour in the fintech sector. By integrating institutional theory, sustainable entrepreneurship theory, and entrepreneurial legitimacy research, the paper has developed the Dual-Force Model of Regulatory Compliance and

Sustainable Entrepreneurship, identified three digital communication mechanisms through which compliance-legitimacy is constructed and signalled, examined cross-jurisdictional variation in regulatory duality mechanisms, and proposed an empirical research agenda for testing the model's predictions.

The theoretical contribution of this paper lies in its departure from both the orthodox economic account (regulation as pure cost) and naive institutional accounts (regulation as pure legitimacy resource) toward a conceptually precise account of regulatory duality that can generate testable predictions and inform evidence-based policy. The practical contribution lies in its implication that compliance frameworks can be designed to maximise their enabling effects — and that sustainable fintech entrepreneurs can develop strategies to accelerate this enabling dynamic through targeted legitimacy communication.

Several limitations should be noted. The conceptual framework developed here is grounded in practitioner observation and theoretical reasoning; its empirical validation is the subject of the proposed research agenda rather than the present paper. The focus on AML/CFT compliance necessarily leaves aside other regulatory dimensions — data protection, consumer financial protection, competition law — that may also shape sustainable entrepreneurship in fintech. Future work should extend the framework to these additional regulatory domains.

The question of how regulation shapes the sustainability of entrepreneurship is not a peripheral academic concern. It sits at the intersection of two of the most consequential challenges of our time: building financial systems that are both integrity-preserving and sustainability-enabling. The conceptual tools developed in this paper represent a step toward the systematic empirical investigation that answering this question requires.

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